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JAPAN'S INTERNATIONAL ORIENTATION OVER THE NEXT FIVE YEARS

Submitted by the

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Concurred in by the

INTELLIGENCE ADVISORY COMMITTEE

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JAPAN'S INTERNATIONAL ORIENTATION OVER THE NEXT FIVE YEARS

THE PROBLEM

To analyze trends in Japan's international orientation over the next five years.

CONCLUSIONS

1. Over the next five years, Japan will intensify its efforts to attain a more independent posture on the international scene and a position of equality in its relationship with the US. These efforts will persist whether the conservatives or the socialists are in power and will probably lead to strains in the US-Japanese relationship. Although there will be considerable change in the nature of the US-Japanese alignment, Japan will probably continue, at least for the next five years, to value close relations with the US. How the relationship will develop will be strongly influenced by the US position on military, political, and economic issues and by the manner in which the US deals with Japan on these issues. (*Paras. 13, 18-20*)

2. Japan's reluctance to build up its own defense forces will continue. In the event of a serious threat of general war, Japan would probably try to avoid the possibilities of nuclear destruction by seeking to disengage from its treaty obligations with the US and to establish a position of neutrality. However, if Japan came to feel that a Communist attack on Japan was

unavoidable, the Japanese government would probably seek to tighten the alliance with the US. (*Para. 21*)

3. Despite the recent normalization of Japanese-Soviet relations, Japan's fear and suspicion of the USSR, together with such current problems as the territorial and fishing issues, will probably preclude the development of a close association between the two countries. However, because of the widespread belief in Japan that closer relations with Communist China would improve Japan's economic and security position, Japan will become increasingly reluctant to withhold recognition of the Peiping regime. (*Paras. 9-10, 16*)

4. Assuming a continued high level of world prosperity over the next five years, the Japanese economy will almost certainly continue to advance, although at a slower rate than in the last two years. Japan may achieve a balance in its international accounts at a favorably high level even without special dollar earnings from the US. Japan will continue to trade predominantly with the non-Communist world, especially the US and

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Southeast Asia, but will be reluctant to continue present controls on trade with Communist China. Moreover, a serious deterioration of Japan's economic situation would cause the Japanese government to become increasingly receptive to Chinese Communist offers of increased trade even though such offers entailed political concessions. (*Paras. 14-15*)

5. Japan's status as an independent participant in Asian affairs will be enhanced by its admission to the UN and by the

probability that it will play an increasingly important role in Asian regional organizations. However, the growth of Japan's influence in Asia will continue to be hampered by the suspicion remaining from the prewar imperialistic period and from World War II, and by the loss of its former mainland economic base. At least during the period of this estimate, we believe that Japan will not offer serious competition to Communist China and India for political leadership in Asia. (*Paras. 12, 17*)

DISCUSSION

6. During the next five years Japan's international orientation will be increasingly affected by Japan's desire for a more independent international position and by its efforts to expand world-wide trade, including trade with Communist China.¹ Many Japanese have become concerned by their exposed strategic position, and by their feeling of isolation in Asia. Despite the rehabilitation of its industry, Japan continues to be confronted with the basic problem of expanding its export market in order to maintain a rate of economic growth adequate to satisfy the needs of its increasing population. In these circumstances, the belief is growing among many Japanese that their close alignment with the US imposes unreasonable restraints on their commercial activities and thrusts their vulnerable country needlessly into the East-West conflict.

Japan's Present International Orientation

7. At present, close alignment with the US continues to be the chief theme of Japanese foreign policy. This alignment grew out of the ties forged during the occupation, and is maintained in part because the Japanese ap-

preciate their defenseless position in case of aggression and their need for a big power sponsor and friend at the international level. Moreover, a primary Japanese motivation for maintaining close ties with the US has been economic. The relative prosperity which Japan is currently experiencing depends heavily on trade with the US, Japan's largest import and export market, and on special dollar earnings from US expenditures in the country.

8. Nevertheless, because of renewed self-confidence and rising nationalism, the demand is growing in Japan for recognition as an equal partner in its association with the US. As a result, latent differences between the two countries have now emerged. Japanese governments have made diplomatic representations against an indefinite period of US administration of the Ryukyu-Bonin Islands and have stated their opposition to the continuation of nuclear weapons tests in the Pacific. They have protested against the maintenance of controls on trade with mainland China which are more stringent than those on trade with the rest of the Bloc. They have become seriously concerned with resistance in the US to imports of Japanese goods. Furthermore, they have for years resisted US pressure to rearm because of widespread anti-war feeling in Japan, popular opposition to

¹ See Appendix A: The Internal Political Situation
Appendix B: The Japanese Economy
Appendix C: Japanese Military Forces

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the economic sacrifices essential for rearmament, and the general belief that Japanese armed forces could play little part in any war between the US and the Communist Bloc.

9. In addition, many Japanese disagree with the US assessment of the nature of the Communist threat, though there continues to be widespread and continuing distrust of the Soviet Union. With respect to Communist China, many Japanese believe that Communism is merely a transitory phase in China's long history. Moreover, there is a general belief that a *modus vivendi* with Peiping will lead to some improvement in Japan's economic, security, and diplomatic position. As a result, there is strong support in Japan for a normalization of relations with Communist China. The Japanese government has responded to the pressures of Japanese public opinion by permitting an increase in commercial and cultural contacts and by pressing the US for greater flexibility in China trade policy.

10. Japan has recently established diplomatic relations with the Soviet Union. Although there was wide disagreement both among and within the major Japanese political parties as to the limits of permissible compromise in reaching agreement with Moscow, the pressure in Japan for some kind of agreement forced the Japanese negotiators to give up their position that the return of the southern Kuriles was a precondition for agreement. Japan has obtained limited concessions concerning fishing rights in the North Pacific and a pledge that the USSR would not veto Japan's admission to the United Nations.

11. Japan has made some progress toward re-establishing its diplomatic and economic relations with other Asian countries. It participated in the 1955 Bandung Conference, has played an active role in the United Nations Economic Commission for Asia and the Far East, is a donor nation in the Colombo Plan, and has exchanged numerous commercial and cultural missions with Southeast Asian states. It has concluded reparations agreements with Burma and the Philippines and has discussed reparations with Indonesia and Vietnam. It finally agreed to indemnify Thailand for wartime deliveries of goods and services.

12. However, Japan is still far from the dominant position of power and influence in Asia which it held before the war. It continues to be hampered by the suspicion and hostility remaining from the prewar imperialistic period and from World War II. It not only lacks its former economic base in mainland China and Korea but its efforts for economic expansion in Asia are hampered by competition from the West and the Communist Bloc. Moreover, throughout Asia Japan is overshadowed by the growing power and influence of Communist China and, to a lesser extent, of India.

Future Trends in Japan's International Orientation

13. Japan's orientation will remain particularly sensitive to international developments because Japan will continue to be weak militarily and highly dependent on world markets. However, Japanese foreign policy, reflecting the reviving nationalism of the Japanese people, will almost certainly follow a more independent line.

14. Japan must attain a sizable increase in foreign trade if it is to sustain a rate of economic growth sufficient to provide employment for an increasing Japanese population and a rising, or at least stable, consumption standard. The need to expand exports has been intensified by the prospect that the large special dollar earnings from the US will be terminated. In its efforts to cope with these problems, Japan will seek to maintain close economic relations with the US while pressing for new and expanded trade with all nations.

15. Japan's efforts to expand and to diversify its trade will bring it into increasingly sharp competition with other advanced industrial economies, especially for markets in the underdeveloped areas. Its trade will also be hampered by tariff and other trade restrictions imposed by importing countries. Japan will be reluctant to continue to observe present controls on trade with Communist China. A deterioration in Japan's economic situation, an increase in Western Europe's share of the mainland China market, or an inten-

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sification of US resistance to Japanese exports to the US would make Japan even more receptive to trade and economic collaboration with Communist China. The sharper the economic setback to Japan, the greater would be its desire to expand relations with Communist China and the less its willingness to resist political conditions.

16. If Communist actions in Asia should demonstrate peaceful international intentions and if Japan's trade with Communist China continues to increase, the Japanese will view the Bloc with greater tolerance, though their suspicion of the Soviet Union will probably persist. Although the Japanese government will almost certainly avoid close political association with the Bloc, Japan will probably become increasingly reluctant to defer recognition of the Peiping regime.

17. Japan's trend toward a more independent position will probably be strengthened over the next five years, as a result of an improvement in its relations with most non-Communist Asian governments. Although Japan's relations with Taiwan will probably remain lukewarm, though correct, its relations with Korea will probably improve when President Rhee leaves the scene. Japan will probably play a larger role in Asian regional organizations and conferences and will seek to improve its relations with the Asian-African nations, including the neutralist group. These developments, coupled with Japan's admission to the UN, will tend to lessen Japan's dependence on US diplomatic support and enhance its status as an independent participant in Asian affairs. However, Japan's diplomacy will probably emphasize commercial objectives and activities. At least during the period of this estimate, we believe that Japan will not offer serious competition to Communist China and India for political leadership in Asia.

18. The pressure of Japanese public opinion, under the influence of reviving nationalism, will be in the direction of a more independent foreign policy with a neutralist cast. This general trend will have the support of most political leaders, both conservative and Socialist. However, there will probably continue

to be a significant difference between conservative and Socialist attitudes toward the US-Japanese alignment. The conservatives, who are likely to continue in power for at least the next two or three years, will probably seek to establish a more independent Japanese position within the general framework of a Japanese alignment with the US. In the face of public opinion and opposition pressures, the conservatives will be increasingly reluctant to support the US in policies which entail economic sacrifice or imply restrictions on Japanese independence.

19. If the Socialists should come to power, the government would probably seek to develop a neutralist foreign policy. However, as leaders of a government, the Socialists would be forced to adopt less radical policies than those advocated in their present party program. The influence of the right wing Socialists and their desire to avoid association with Communist policy would also tend to moderate Socialist hostility to the US-Japanese alignment. In addition, a Socialist government, because of party factionalism, probably would not have the strength to shift radically Japan's orientation. Although a Socialist government probably would attempt to make drastic changes in the US-Japanese security arrangements, we believe that at least in the short run it would not seek to terminate these arrangements.

20. Japanese desires for a more independent posture on the international scene and a position of equality in its relationship with the US will, during the next five years, bring about considerable change in the nature of the US-Japanese alignment. In particular, any Japanese government is almost certain to seek changes in the security agreements, such as a shortening of the time span of the security agreements, a reduction of the number and size of US bases and the strength of US forces in Japan, and an agreement that in case of war the bases would only be used with Japanese concurrence. However, because of international economic, security, and political considerations, Japan will continue to value a close relationship with the US. How this relationship will in fact develop will be strong-

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ly influenced not only by the US position on the substance of military, political, and economic issues, but on the manner in which the US deals with these issues.

21. Japanese reluctance to build up its own defense forces will continue. In the event of a serious threat of general war, Japan would

probably try to avoid the possibilities of nuclear destruction by seeking to disengage from its treaty obligations with the US and to establish a position of neutrality. However, if Japan came to feel that a Communist attack on Japan was unavoidable, the Japanese government would probably seek to tighten the alliance with the US.

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APPENDIX A

THE INTERNAL POLITICAL SITUATION

1. Japan's government continues to be dominated by the Liberal Democratic Party, which was created in 1955 by a merger of the two major conservative parties. However, because of intraparty factionalism and irresolute and generally inefficient leadership, the position of the conservative government has weakened during the past year. This was manifested in the July 1956 elections for the upper house of the Diet when the Socialists won 12 additional seats, mainly at the expense of conservative independents and the Ryokufukai,¹ while the Liberal Democrats failed to gain. Not only was this a blow to conservative prestige and self-confidence, but it also revealed a Socialist capacity for effective organization and election techniques. The Socialists could now almost certainly muster sufficient strength in the upper house to block an amendment to the constitution.

Distribution of Diet Seats
as of November 1956

	Upper House	Lower House
Liberal Democrats	124	297
Socialist Party	81	153
Japanese Communist Party	2	2
Ryokufukai	29	0
Others ²	12	8
Vacancies	2	7
	<u>250</u>	<u>467</u>

Conservatives

2. Formation of the conservative Liberal Democratic Party was to a considerable extent a reaction to the merger of the Left and Right Socialist parties and glossed over, rather than resolved, serious dissension among the conservatives. Because of struggles for personal power and differences on policy issues, the Liberal Democratic Party has continued to be split into several shifting factions competing

¹ Green Breeze Society, a loose coalition of generally conservative independents.

² Includes the Labor-Farmer Party, Independents, and splinter parties.

for domination. The lack of strong leadership and unity in the Liberal Democratic Party has seriously reduced the effectiveness of the government in both domestic and foreign policy and has enabled the Socialists to increase their following and influence.

3. Ishibashi, who was elected as Prime Minister of Japan in December 1956, has personal vigor and a leadership capacity which his predecessor, Hatoyama, lacked. Although he was chosen president of the Liberal Democratic Party by only a slight margin, Ishibashi will probably, at least during the short run, be able to achieve an increased measure of cooperation within the ranks of the conservatives. Nevertheless, government effectiveness will probably be hampered by continued factionalism within the party. Ishibashi's approach to US-Japanese relations may be somewhat colored by the fact that he was purged by SCAP in 1947. In any event, he will almost certainly press the issue of expanding trade relations with Communist China and will probably call for an early review of Japan's security and base agreements with the US.

4. Some disgruntled minority elements may drop out of the Liberal Democratic Party, but the pressure of the increasingly effective Socialist Party will probably induce the conservative forces to hang together. Many of the older conservative leaders who now obstruct party unity will almost certainly be forced out of political life. However, it is as yet impossible to say which of the younger Liberal Democrats will emerge as party leaders or whether any of them will develop, over the next five years, into dominant national figures capable of sustained political leadership.

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Socialists

5. The reunification of the Left and Right Socialist parties in 1955 took four years to accomplish and in some ways was even more difficult than the conservative merger. The party platform, which was negotiated before the merger, required important compromises. While the leftists were particularly dissatisfied with the failure to include a strong stand for neutralism and to stress a "class struggle" approach to the party's revolutionary program, the rightists were dissatisfied with the leadership arrangements in the reunified party. Left Socialist chairman Suzuki became chairman of the new party, while Right Socialist chairman Kawakami was made a party "advisor." In addition, the Left Socialists won four of the top seven party positions. Despite internal conflicts, the Socialists have been able to present a greater posture of unity than the conservatives.

6. The Socialist Party platform calls for the realization of a socialist society through peaceful revolution and democratic processes. In essence it visualizes a neutral Japan maintaining full and free diplomatic and commercial relations with all countries. It advocates replacing the US-Japan Security Treaty and the Administrative Agreement with a collective nonaggression treaty among Japan, Communist China, the USSR, and the US. It opposes any revision of the constitution which would alter the social and political reforms provided under it or which would "legalize" Japanese rearmament.

7. The Socialist Party, in spite of the pressure exerted by its left wing, has consistently resisted Communist attempts to form a united front. The only significant instance of Socialist Party cooperation with the Communists during the past year was precipitated by a government sponsored election reform bill which was designed to cut the parliamentary representation of the nongovernment parties.

The Labor Movement

8. During the past year, Sohyo (General Council of Labor Unions), whose approximately three million members make it the largest

labor federation in Japan, has moderated slightly its general policies. In July 1955, Iwai, a 33 year-old left wing Socialist, was elected Secretary General of Sohyo, replacing pro-Communist Takano who had held the post since the organization of the federation six years earlier. Under Iwai's leadership, the influence of the pro-Communist left wing in Sohyo has been reduced and the federation has taken a somewhat stronger stand against Communist activity in its ranks. The Sohyo national convention of August 1956 confirmed Iwai's leadership by re-electing him Secretary General without opposition and by electing as President of Sohyo the outspoken anti-Communist, Haraguchi. Nevertheless, Sohyo continues to be susceptible to Communist influence. Its 1956 platform no longer bars cooperation with the Japanese Communist Party on "nonpolitical" matters and several left wing unions in Sohyo have taken a leading part in the movement to broaden cultural and labor contacts with Communist China.

9. Sohyo has developed closer relations with the Socialists during the past two years. Over the opposition of the left wing labor groups, Sohyo leaders publicly favored Socialist Party reunification and Iwai has called on the Sohyo members to join the Socialist Party en masse. Sohyo and the Socialist Party worked closely and effectively in the July 1956 elections and a number of successful Socialist candidates were labor union officials.

10. Sohyo and the Socialist Party have also cooperated in labor's wage struggles and in the anti-US base movement. However, Sohyo's most recent effort to embarrass the conservative government and to help the Socialists by waging a major offensive for increased wages immediately before the July elections failed when the government and management took a firm stand. Cooperation in the anti-US base movement has been apparent in official statements by Sohyo and Socialist leaders and in their joint action in strikes and demonstrations. By a series of one-day strikes against US bases, Sohyo has demonstrated a potential capability to cripple the logistic support for US military forces in Japan.

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11. Zenro (All-Japan Congress of Labor Unions), the second largest labor federation in Japan, has increased its membership to about 632,000. Zenro is more united in opposition to the Communists than Sohyo and has continually objected to Sohyo's propensity to thrust organized labor into "political struggles" rather than confine labor activities to "economic struggles." Zenro has thus far refused to consider reconsolidation with Sohyo, and probably will continue to do so unless Sohyo becomes more moderate than now seems likely.

Japanese Communist Party

12. After five years of semiunderground existence the Japanese Communist Party, during 1955, shifted its avowed policies in accordance with the Communist Bloc "peace offensive." The Communist Party has taken steps to rehabilitate itself as a popular mass party, pledging itself to pursue its objectives by peaceful and legal means and defining its main task as the promotion of a "democratic united front for national liberation." The Communist Party has ostensibly deactivated its covert paramilitary apparatus, but is continuing its infiltration of Japanese political, cultural, and mass organizations, especially the Socialist Party and organized labor.

13. Although the Communist leadership has sought to end factionalism within the party by adopting a policy of reconciliation and by reorganizing its leadership on a collective basis, the party is still not effectively unified. Nosaka, who became the First Secretary of the party in 1955, lacks the forceful and autocratic personality of his predecessor, and it is doubtful that he could hold the party together in a period of crisis. However, his general popularity in Japan and his moderate manner make him a logical leader during a period of united front and peaceful revolutionary tactics.

14. There is little indication that the JCP, despite its efforts during the past year, has increased its membership or its influence as a political force. In early 1956, total JCP membership was estimated at between 80,000 and 90,000. In the July elections to the upper

house of the legislature, the JCP polled about 600,000 or 2.1 percent of the total vote cast in the national constituency, winning two seats in the upper house which give it a total parliamentary strength of four seats.

Ultrationalists

15. There are a number of extreme rightist and ultranationalist groups in Japan with strong roots in traditional Japanese beliefs and institutions. Their activities have somewhat increased during the past year, and one, the Sokagakkai, succeeded in electing three candidates to the upper house in the July 1956 elections. However, they continue to be poorly organized, weakly supported, and seriously divided by ideological differences and leadership rivalries. In the event of serious economic or political crisis in Japan, the ultranationalists would probably increase their influence. Even in such a crisis they would almost certainly not exercise a dominant influence on the government.

Prospects

16. At least for the next two or three years, barring severe internal or external crisis, the conservatives will probably maintain control of the government. However, they will probably be increasingly sensitive to public criticism and cautious in sponsoring unpopular measures, even those which they may consider as important to Japan's security. In particular, the conservatives will probably not press vigorously for rearmament, for more effective internal security laws, or for a stronger national police. Moreover, the conservatives will probably find it increasingly difficult to support internal or foreign policies associated in the Japanese public mind with close alignment with the US.

17. The Socialist Party will probably increase its national political and electoral strength as a result of its efforts to build a membership based on the trade union movement and on local organization. It will also continue to benefit from conservative disunity. Socialist influence on government policy will almost certainly increase. The Socialist Party will

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probably continue its policy of avoiding a united front with the JCP, although the two groups may sometimes vote the same way or join forces temporarily in opposition to or in support of specific issues. However, there is a continuing danger that the moderates in the Socialist Party may be overwhelmed as a result of Communist infiltration and Sohyo's strong influence in the Socialist Party. The chances now appear less than even that the Socialists will take over the government or lead a coalition government within the next five years, but there is the possibility that continued ineffective conservative government could cause a rapid increase in Socialist strength. A serious economic, political, or foreign policy crisis could stimulate a sudden ballooning of opposition to the conservatives and propel the Socialists into power.

18. Provided there is not a major change in Communist Bloc strategy, the JCP will probably continue to seek its objectives by appealing to the alleged national interest and by sponsoring social and economic reforms, rather than by revolutionary slogans and

action. Its activities will probably be concentrated on attempting to infiltrate and gain control of non-Communist mass organizations and political groups and attempting to join with the Socialists in a united front. It will promote issues which enjoy wide popular support, but which nevertheless tend to accelerate the neutralist trend, such as increased trade with Communist China and the Bloc, withdrawal of foreign forces, and "independence" for Japan. Since similar goals are also expressed by the Socialist Party and other political factions, the Communists would probably gain increased popular and political tolerance if these common objectives materialize. Although the JCP is still deeply split over its new policy, no major outbreak of open factional strife appears likely in the immediate future. The Japanese government will probably continue to be capable of taking effective countermeasures against a direct Communist challenge to internal security. However, it is not likely to take action against JCP activities aimed at undermining the US position in Japan, particularly while the JCP is following a moderate policy in other respects.

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APPENDIX B

THE JAPANESE ECONOMY

1. The Japanese economy continued to expand rapidly during 1955 and 1956, reaching new heights in almost all fields of production. Concurrently, Japan's foreign trade position improved steadily through mid-1956, although higher imports have recently increased trade deficits. In part these successes are the result of several favorable conditions outside Japa-

nese control, namely, world-wide prosperity, unusually favorable weather conditions which resulted in bumper rice crops, and a continued high level of US spending in Japan. In part they are the result of Japan's own efforts to expand foreign trade and to maintain domestic monetary stability.

TABLE I

SELECTED INDEXES OF JAPANESE ECONOMIC GROWTH

	1950	1951	1952	1953 ^a	1954	1955	Jan-Oct 1956
Industrial Production	54	74	81	100	108	117	136
Agricultural Production	101	102	114	100	108	130	---
Exports	84	89	89	100	131	162	189
Imports	44	65	73	100	103	104	131
GNP	57	78	86	100	106	114	---
Real per capita National Income	78	86	95	100	103	110	---

^a Base period values for 1953; exports, 458.9 billion yen; imports, 867.5 billion yen; GNP, 6,911 billion yen; P/C national income, 66,943 yen. 360 yen = one US dollar at official exchange rate.

2. The benefits of the boom have accrued in great part to larger concerns, and the tendency to re-establish large industrial and commercial organizations has continued. As a result of financing difficulties and increased competition from newer, more modern industries, there has been an increase in the number of failures in small and medium sized businesses. Furthermore, widespread underemployment has remained chronic.

Foreign Trade

3. Japan, because of its large population and its shortage of arable land and other natural resources, is unusually sensitive to external developments which limit its ability to earn foreign exchange or interfere with the continuous inflow of raw material to its indus-

tries. Moreover, Japan must import about 20 percent of its food.

TABLE II

SELECTED JAPANESE IMPORTS AS A PERCENTAGE OF TOTAL REQUIREMENTS IN 1955

Commodity	Per- cent	Commodity	Per- cent
Bauxite	100	Rayon pulp	22
Iron ore	78	Raw wool	100
Coking coal	26	Raw cotton	100
Crude oil	96	Soybeans	61
Rubber	100	Sugar	96
Phosphate rock	100	Barley	33
Potash	100	Rice	10
Salt	78	Wheat	61

4. Since 1953 Japan has vigorously pursued a policy of "economic diplomacy" designed to broaden and stabilize its import and export markets. Trade missions, market research teams, and commercial representatives have been sent to many countries. Although Japan

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gained admission to GATT (General Agreement on Tariffs and Trade) last year, only 20 of the 34 members formally extend full benefits of the agreement to Japan. However, some of the other 14 members do so in practice.

5. Japan's foreign trade position has steadily improved during the past few years. Its balance of payments position improved in 1955 to the point of achieving a surplus of over \$200 million on current account. (See Table III.) This improvement derived primarily from the significant increase in Japanese exports — especially to the US, Africa, and Western Europe — and to a much lesser extent from decreases in shipping and insurance outpayments. Although special dollar earnings from US activities in Japan in 1955 and 1956 (about \$550 million annually) were lower than in the previous several years, they have continued to play a very important role in Japan's balance of payments. As of June 1956 Japan had a postwar high in foreign exchange holdings estimated in the equivalent of \$1.6 billion of which \$1.1 billion was in dollars and \$0.3 billion in sterling. By the third quarter of 1956, however, as a result of higher imports Japan again was experiencing slight deficits on current account despite small increases in special dollar earnings, and there may be a small deficit on current account for 1956 as a whole.

6. *Trade with the US.* The economic well-being of Japan has continued to be highly dependent on economic relations with the US. In addition to being the most important single export market for Japan and an important source of special dollar earnings, the US has been the principal postwar supplier of imports into Japan, though currently at a lower percentage than in the early postwar years. (See Table IV, page 12.) The US in 1955 was Japan's leading supplier of coal, phosphate rock, soybeans, and grains, and an important source of iron ore, cotton, petroleum products, and industrial chemicals. Japan's major exports to the US are textiles and fish and fish products. In addition, in recent years Japan has emphasized new export items such as sewing machines and plywood.

7. However, serious problems exist in US-Japanese economic relations. Japan has traditionally had a very large deficit in its merchandise trade with the US. Efforts to raise exports have run into increased US resistance to imports from Japan. To avert formal US import restrictions, Japan has adopted voluntary restrictions on exports of cotton textiles, tuna fish, and plywood to the US market. The Japanese have suffered from an increase in freight charges and in prices of raw materials imported from the US. Finally, the Japanese realize that special dollar earnings will

TABLE III
JAPAN'S BALANCE ON CURRENT ACCOUNT, 1953-1955
(millions of US dollars)

	1953		1954		1955
Exports, f.o.b.	1,257.8		1,611.3		2,006.7
Imports, f.o.b. ^a	-2,049.6		-2,040.6		-2,081.3
Trade Balance		-791.8		-429.3	-74.6
Transportation and Insurance	-183.3		-177.5		-157.3
Government ^b	802.1		603.3		510.4
Other Invisibles	-53.2		-76.7		-92.4
Net Invisibles		565.6		349.1	260.7
Private Donations	21.1		29.4		30.4
Official Donations	--		--		-9.1
Total Donations (Net)		21.1		29.4	21.3
Balance on Current Account		-205.1		-50.8	207.4

^a Imports c.i.f. for the three years are: \$2.4 billion, \$2.4 billion, and \$2.5 billion respectively. Imports c.i.f. are used in Table IV below and in the text.

^b Total includes goods purchased by UN forces under special procurement programs. These totals correspond roughly to special dollar earnings from the US which for the three years were \$786 million, \$575 million, and \$545 million respectively. In 1956, special dollar earnings are at a level slightly higher than 1955.

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eventually disappear and that action must be taken to reduce Japan's continuing trade deficit with the dollar area.

8. *Trade with other non-Bloc Areas.* The underdeveloped areas, especially Southeast Asia, have some potential as an alternative to the US as a source of foodstuffs and raw materials and as a market for Japanese manufactures. Although Japan has increased its trade with Southeast Asia, the Japanese have been less successful in developing trade with this region than with other underdeveloped areas. Their efforts have been hampered by the limited purchasing power and export capabilities in the underdeveloped areas and by competition from other industrial countries. Japan's trade with Western Europe, which constitutes about the same percentage as in the prewar period, is encountering increasing resistance.

9. Japanese economic relations with many Southeast Asian countries have also been complicated by the problem of reparations. Reparations agreements, payable in goods and services, have been concluded with Burma in the amount of \$200 million payable over 10 years and with the Philippines in the amount of \$550 million payable over 20 years. The Burma agreement provides for an additional \$50 million in Japanese investments and loans,

and the Philippine agreement provides arrangements for \$250 million in private Japanese loans. In addition, negotiations have been underway sporadically with Indonesia, although there is a great difference thus far between Indonesian claims and the amount Japan is prepared to pay. Indonesia has made reparations settlement a precondition for establishing normal trade relations with Japan. Belated war indemnity claims on Japan have been made by Vietnam, and some discussions have been held. The Japanese also agreed to pay Thailand \$16 million in sterling over a five-year period, and \$26 million in "goods and services in the form of investments or credits" as reimbursement for goods and services received during World War II.

10. *Trade with the Bloc.* Although the Bloc share of Japanese total trade in 1955 comprised only two percent of Japan's exports and 3.6 percent of Japan's imports, Japanese exports to and imports from the Bloc increased 64 percent and 84 percent respectively over 1954. In the first nine months of 1956, trade with the Bloc increased 27 percent over the same period of 1955. Communist China continues to account for over four-fifths of total Japanese trade with the Bloc. (See Table V, page 13.)

11. A significant increase in intercourse between Japan and Communist China has accompanied the increase in trade. Numerous

TABLE IV
JAPAN'S FOREIGN TRADE BY AREAS
(percentages of annual imports c.i.f. and exports f.o.b.)

Trade with:	Prewar ^a		1955		1956 (First nine months)	
	Imports	Exports	Imports	Exports	Imports	Exports
Geographic Areas						
North & Central America (US)	25.9 (23.4)	17.7 (16.9)	41.3 (31.0)	26.5 (22.0)	42.5 (31.7)	26.4 (22.2)
Asia (Mainland China)	53.9 (12.4)	63.9 (20.7)	36.6 (3.3)	41.9 (1.4)	33.7 (2.6)	40.6 (2.2)
Africa	3.0	5.4	2.5	10.2	3.5	14.7
Europe (UK)	8.9 (2.6)	8.4 (5.4)	7.1 (1.5)	10.2 (3.0)	7.4 (2.1)	9.9 (2.8)
Oceania & Australia	5.8	2.7	8.3	3.8	8.8	2.2
South America	3.1	1.9	4.2	7.4	3.9	5.9

^a Prewar figures for 1936 except mainland China which are 1930-1939 average. Prewar mainland China includes Manchuria and Kwangtung.

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private commercial and technical missions have been exchanged. Private trade agreements have been concluded with practically all Communist Bloc countries. Unofficial fisheries agreements have been signed by the Japanese fishing industry with Communist China and with North Korea, and an official agreement has been concluded with the Soviet Union. Increasing numbers of Japanese ships are engaged in trade with Communist China.

12. Although the Japanese government has observed the international controls on Bloc trade and has not utilized the exceptions procedures as extensively as some Western European nations, it has strongly advocated the scaling down of China trade controls to COCOM levels. The Japanese argue that these controls discriminate against them because Western European exporters can evade the "China differential" controls by exporting to Eastern European Satellites for transshipment without unduly adding to the freight costs. The Japanese fear that the development of markets in China by Western European countries will prejudice Japanese prospects in an area in which they consider they have a traditional, pre-eminent interest. The Chinese Communists have put pressure on Japan to export items prohibited by CHINCOM by withholding certain key raw materials, among them iron ore and coal. Very strong pressures have developed in business circles (especially among smaller and medium-sized firms which have benefited less than larger firms from the recent trade boom) for a relaxation of the China differential, and these pressures have had an impact on the government. While the government has been held back thus far by a desire not to antagonize

the US, it is likely to follow the lead of Western European countries in increasing its use of CHINCOM exception procedures and in stepping up its attack on the China differential.

Internal Economic Problems

13. *Employment.* During the past several years, unemployment¹ has remained fairly stable (570,000 in mid-1956) as the rapid increase in industrial production has absorbed new entrants into the labor force. However, underemployment has been estimated as high as 6-10 million persons — mainly in agriculture and small commercial and service establishments. The basic cause of the employment problem is the high level of population in relation to land and other economic resources. In the next five years, the labor force will increase by about 11 percent, while the population as a whole will increase by only about five percent.² Meanwhile, many industries are introducing modern labor saving devices, and it is questionable whether industrial employment will expand sufficiently to keep pace with the increase in the labor force. Although the employment problem remains a potential threat to Japanese social and political stability, it is not at present menacing.

14. *High Production Costs.* Japanese industry continues to have many high-cost producers, although new and more efficient pro-

¹ Unemployment is defined by the Japanese government to include those members of the labor force between the ages of 14 and 65 who have worked less than one-half hour in the week.

² This rate of population increase is far less than the prewar Japanese figure and significantly less than that in most other areas of the world.

TABLE V
JAPAN'S TRADE WITH THE SINO-SOVIET BLOC^a
(millions of US dollars)

	1954		1955		1956 (First nine months)	
	Exports	Imports	Exports	Imports	Exports	Imports
China	19.1	40.8	28.5	80.8	39.4	60.5
USSR	neg	2.3	2.1	3.1	0.7	1.7
European Satellites	5.0	5.3	8.8	5.2	4.5	6.3
TOTAL	24.1	48.4	39.4	89.1	44.6	68.5

^a Trade with North Vietnam and North Korea has been negligible.

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duction techniques and plant have been introduced, especially in larger firms, as a result of substantial Japanese public and private investment and foreign technological assistance. Labor practices and techniques are backward by Western standards. Output per worker is far lower than in most comparable US industries. Japanese wage costs are consequently considerably higher than indicated by the individual worker's income. Costs are also boosted by high interest rates, caused by a severe shortage of capital, and by high costs of raw materials. This is particularly true with respect to the iron and steel industry, which is basic in Japan's industrial complex. In general, a key problem is to narrow the gap between Japanese and foreign costs of production.

15. *Industrial Science and Technology.* In order to reduce costs and to develop new products, the Japanese government and industry are gradually increasing their support for applied science projects which offer an early economic return, though to date this support has been modest in amount. The Japanese have depended heavily on private foreign assistance—mainly from the US—to introduce modern technology into their industry, but Japan's contribution to its own technological development will gradually increase. Because electric power costs are rising and most low cost hydroelectric power sites have already been developed, Japanese industrialists are looking to nuclear energy. Although nuclear energy will not provide a significant portion of Japan's power needs within a decade, the Japanese already are training personnel and taking some steps to acquire the necessary equipment and fuels.

16. *Domestic Price and Monetary Stability.* The conservative monetary and fiscal policies of 1954 and 1955 restrained investment and consumption expenditures. Wholesale, retail, and export prices declined slightly through most of 1955. However, by mid-1956 Japan was again experiencing inflationary pressures as investment activity expanded sharply, consumption expenditures increased, and rising industrial output—diverted in some cases from the export market to domestic consumption—drew down raw material stocks and

strained existing plant capacities. In the first nine months of 1956, wholesale prices rose by seven percent; prices of some goods, especially iron and steel and industrial chemicals, rose by far greater amounts. Export prices rose by 3.6 percent in the first seven months of 1956. It became necessary for the government to provide for a significant increase in imports in the latter part of 1956, partly to stem pressure on prices. In August, the Bank of Japan tightened credit to counter the inflationary trend.

Economic Prospects

17. Japan's economy probably will continue to expand through the next year or so. The economy will enjoy the benefits of the two successive bumper rice crops of 1955 and 1956. Industry will be preoccupied with expansion and modernization of plant, under programs already initiated, and with fulfillment of domestic and export orders. Unemployment will probably remain low, but considerable underemployment will continue. Both investment and consumption expenditures will rise. There will likely be some weakening of the country's foreign exchange position from the necessity for greater imports of raw materials to satisfy industrial demand. Exports are expected to continue to rise, but will probably increase less than imports. Japan will probably not suffer severely during the coming year from disruption of worldwide oil distribution because of the Suez crisis. On the other hand, Japan will probably gain in its trade with Asia as a result of economic dislocation in Western Europe generated by the Suez situation. The main danger facing the economy during the next year will be inflation, signs of which have already appeared. Under Ishibashi's leadership inflationary tendencies may be accelerated because he favors an easy credit policy and deficit financing by government. Any significant weakening in the unity of the incumbent Liberal Democratic Party would make it even less likely that the government would act effectively to fight inflation.

18. Over the next five years, assuming a continued high level of world prosperity, Japan's economy will almost certainly continue its advance, although probably at a slower rate

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than in the past two years. Industry will expand capacity sharply in some fields and make progress in modernizing both equipment and techniques, thus improving its basic competitive position somewhat in world markets. There will be a special effort to step up heavy industrial production — including iron and steel, shipbuilding, and chemicals — and to increase the use of substitutes for imported raw materials. Particular emphasis will be placed on diversification and expansion of export markets, which will continue to be the key to the growth of the economy.

19. However, Japan will continue to be faced with serious economic problems. Although the number of workers officially classified as "unemployed" may not rise, there will continue to be millions not fully employed. Even with increased use of domestic substitutes and higher farm output, Japan will continue to depend heavily on imports of raw materials and foodstuffs. Despite increased labor productivity and more efficient industrial methods, Japan will continue to be a high-cost producer of many export goods, as compared with the US and Western Europe, and will thus remain particularly vulnerable to a general recession in world trade.

20. Assuming continued world prosperity, Japan may, over the next five years, achieve a balance in current external transactions at a favorably high level, without special dollar earnings from the US. However, this will be

largely dependent on Japan's success in substantially expanding its exports, and its efforts in this respect will probably run into increasing difficulty. In its attempts to expand exports to the West, Japan will probably encounter increased discrimination in the US and protectionist tendencies in Western Europe. In South and Southeast Asia, Japan will probably run into greater competition from the West and from the Soviet Bloc, and will continue to be hampered by limited purchasing power and export availabilities within the area. While the great bulk of Japan's trade will continue to be with the free world, Japan will seek increasingly to develop the China mainland as a source of food and raw materials and a market for industrial goods. However, the possibilities of stepping up trade to any substantial extent with other members of the Bloc are much more limited.

21. If there should be a sharp downturn in world prosperity within the next five years, or a significant setback to Japan's exports as a result of foreign discrimination or domestic inflation, Japan's continued economic progress would be immediately threatened. In that contingency, Japan would probably resort to economic practices outside the framework of free world international arrangements. However, measures which Japan might take out of economic self-interest would be tempered somewhat by its continued basic alignment with the free world.

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APPENDIX C

JAPANESE MILITARY FORCES

1. Japan's military establishment is small and inadequate for the defense of the country. It is designed primarily to contribute to a joint defense effort, and the security of Japan continues to depend upon defense arrangements with the US. Japan's ground force of approximately 150,000 men (organized into 2 corps headquarters, 6 divisions and 3 combined brigades) is capable of maintaining internal security and of conducting limited defensive operations on the Japanese islands. Its naval force, with a personnel strength of about 19,000, consists of 2 destroyers, 1 escort destroyer, 23 escort vessels, 1 submarine, and numerous minesweepers, amphibious vessels, and auxiliaries. It is currently capable of limited ASW, mine warfare, and escort operations within Japanese coastal waters. The naval air arm has 78 aircraft and is training for patrol and ASW duties. Japan's air force has about 11,000 men, and 437 aircraft, of which 74 are F-86's and the balance trainers and transports. Its combat capability is currently limited.

2. In its current fiscal year the Japanese government will spend about US \$391 million for defense (approximately 14 percent of the total national budget and two percent of the national income), of which \$112.5 million will be contributed to the support of US forces in Japan.

3. Japan's defense forces receive much of their arms, supplies, and equipment from the US. Most of the important naval vessels are on loan from the US. The escort destroyer, three of the escort vessels, and three minesweepers were recently built in Japan; an additional escort destroyer, 8 submarine chasers, and 6 motor torpedo boats are currently under construction in Japanese yards. Military aircraft production has included F-86's and T-33's. Local manufacturers now supply the ground force with over one-half of its general

purpose vehicles, and many types of radios, tires, petroleum products, and personal equipment. Prototypes of a medium tank and of several light antitank vehicles were constructed in 1956. However, the prospect of ending the US offshore procurement program in Japan, coupled with the lack of orders from the Japanese military establishment, have caused manufacturers of munitions to plan to convert to nonmilitary production or to look for export markets.

4. A National Defense Council composed of top civilian officials of the government has recently been established as the highest advisory organ on basic national defense policy and plans. Japan is still operating under an informal plan which envisages by March 1961 a build-up of ground force strength to 180,000, of naval force strength to 33,000 with 110,000 tons of combatant vessels, and of air force strength to about 43,000 men and 775 aircraft. It also calls for the Japanese air force to take over operation of all of the 24 air control and warning sites. However, the Japanese government has begun a full-scale review of the Six Year defense plan to adjust for lags in MDAP aid, rises in local costs, and new weapons developments. Serious thought is being given to greater emphasis on air and naval development with a commensurate slowing down of the growth of the ground forces.

5. Very little military scientific research has been carried on in Japan since World War II, but some efforts will probably be made in the next few years to modernize the country's arms and equipment, for which Japan has considerable industrial and technological capabilities. However, there are no plans to undertake a nuclear weapons program in Japan, and it is highly improbable that Japan will initiate such a program within the next several years. The Japanese government has given only limited support to a research and

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development program for guided missiles. It is probable that during the next few years Japan will commit the major portion of its military research and development resources to defensive weapons such as ground-to-air and air-to-air weapons and coastal protective systems.

6. There has been widespread opposition to rearmament and defense spending in Japan. Furthermore, some elements within the armed forces and the government have never accepted US ideas on the composition of the Japanese armed forces. They do not believe, for example, that the primary defense of Ja-

pan will be against ground attack, and they therefore oppose the expenditure of nearly half of their defense budget on ground forces. Japan's defense capabilities over the next few years will probably not increase significantly, although a considerable increase in its armed forces is within Japan's manpower, industrial, and financial capacity. If the US should completely withdraw its forces from Japan, the Japanese would probably become more concerned about their own defense needs and might initiate an expansion of their military forces, though only according to their own appraisal of Japan's defense requirements.

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